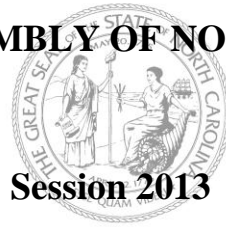


GENERAL ASSEMBLY OF NORTH CAROLINA



FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: April 8, 2014

TO: Representative Lewis, Representative Blust, and Senator Hartsell

FROM: Jonathan Tart
Fiscal Research Division

RE: Replacing Net Economic Loss Provision

FISCAL IMPACT

(\$ in millions)

☒ Yes ☐ No ☐ No Estimate Available

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
State Impact					
General Fund Revenues:	0.0	0.0	(5.0)	(5.0)	(5.0)
General Fund Expenditures:					
Special Fund Revenues:					
Special Fund Expenditures:					
State Positions:					
NET STATE IMPACT	\$0.0	\$0.0	(\$5.0)	(\$5.0)	(\$5.0)

Local Impact					
Revenues:					
Expenditures:					
NET LOCAL IMPACT	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:

NC Department of Revenue

EFFECTIVE DATE January 1, 2015

TECHNICAL CONSIDERATIONS:

None

BILL SUMMARY: This proposal would replace the net economic loss calculation for corporate income tax purposes with a State net loss calculation. The primary difference is that there would not be a reduction to losses for non-taxed income.

The current carryforward period of 15 years to utilize a loss for corporate income tax purposes is not changed by this proposal. The proposal is effective January 1, 2015.

ASSUMPTIONS AND METHODOLOGY: The estimate is based on information from the Department of Revenue regarding audit experience and contested cases resulting from the separate calculation required for North Carolina purposes.

Fiscal impact resulting from the adoption of the federal calculation is not expected to be significant. This is because differences between the state and federal calculation have been reduced due to policy changes that have occurred. Additionally, when a loss is reduced for North Carolina purposes in a carryforward year, a taxpayer has the opportunity to use the loss in a subsequent tax year until the 15-year carryforward period expires. This results in deferral of a loss, not elimination of a loss. Although the fiscal impact is not expected to be significant, Fiscal Research has taken a conservative approach to account for potential impact due to conformity to the federal calculation and to account for timing differences.

SOURCES OF DATA: NC Department of Revenue

TECHNICAL CONSIDERATIONS: None